
Can COAG deliver?

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Speech

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Let me begin by asking you to imagine Australia as having gone through a major strategic planning exercise.

It all began at the end of the twentieth century when it had become clear that the economic reform agenda from the 1980s and 1990s needed to be extended to include social and environmental issues. Not only was there evidence that productivity growth was slowing down there was a deeper understanding of what promotes it - not just competition but also a healthier community, better educated workers and an inclusive society.

This idea was taken up by the States and the Commonwealth, with Victoria doing the intellectual spade work in the latter years of the Howard Government. However, largely due to John Howard's aggressive stance on Commonwealth power, it wasn't fully developed at that time. This task fell to the Rudd Government and was a key plank of their election platform.

The National Reform Agenda - as it came to be known - was institutionalised in a new agreement on federal/state finance. This reduced the number of Special Purpose Payments by the Commonwealth to the States and Territories from over ninety to five.

Backing it up were new National Agreements that clarified roles and responsibilities and shifted the focus of assessment to desired outcomes for the nation. The restrictive input controls traditionally connected to Commonwealth grants were ditched in favour of continuing assessment around agreed benchmarks and indicators. This task of assessing performance was handed to the independent COAG Reform Council (on which I sit as Deputy Chair - nominated by the States).

The idea was simple - unity of purpose over desired outcomes and flexibility of delivery in seeking to achieve them. It was to be a new and creative partnership for progress. Ultimately, however, it was the provision of accurate information to the people that would drive the system to improve. Once again the formula was simple - information plus politics equals accountability. Poor performance would be punished and good performance rewarded at the ballot box where it really matters.

As well as the Special Purpose Payments there were to be National Partnership Payments from the Commonwealth to fund projects, facilitate reform and reward reform initiatives. However, reward payments were only to go to States and Territories if it could be demonstrated that agreed outcomes were achieved. In this case finance was to be the driver of performance, with the role of assessment being handed to the COAG Reform Council.

What we see, then, is a national system of performance management and political accountability. "11More autonomy and flexibility but with improved transparency and accountability" was the catch- cry of the reformers.

The evidence from the National Competition Policy implemented in the 1980s and 1990s was that this was a model that could work.

This policy saw national agreement over objectives (improved productivity through more competition), incentive payments for the States and Territories if they facilitated economic reform, and an independent National Competition Council to report on performance. The States and Territories were in control of the reform process, a large part of which required legislative change. If the changes weren't made, the money didn't come.

Because reform had to be defined and debated within each State and Territory, sometimes in Upper Houses where the government of the day was not in a majority, the whole process gained more legitimacy than would have been the case with an unqualified push from the top.

However, there are important differences between the National Reform Agenda and the National Competition Policy.

Firstly, the reform agenda today is more comprehensive, covering social inclusion and environmental sustainability as well as microeconomic reform. This makes it more complex in definition and delivery.

Secondly, it is focussed on "outcomes". The competition agenda, on the other hand, focussed on legislative and other policy initiatives ("outputs") that were either achieved or not achieved in the political arena. This made it relatively easy to judge the performance of the States and Territories.

The National Reform Agenda, on the other hand, is also about outcomes like higher education standards, improved health and wellbeing, higher levels of motivation to work etc. What is not so clear are the sorts of outputs and policy initiatives that will be required to achieve these outcomes.

Judgement is a more difficult task. What indicators are available to measure these outcomes? What is a reasonable timeline within which we can expect improvement to occur? Won't the community have to play its part - working with government -to achieve these results?

In looking at the National Reform Agenda two important issues are raised: Is the institutional framework strong enough? Are the major players committed to the principles involved?

In respect of institutions there is no doubt about the quality of the inter-governmental agreement on finance. It is conceptually sound and clear in intention and formulation. Roles and responsibilities are to be defined and accountabilities agreed in a way that ought to overcome "the blame game".

However, one might ask: Is it enough to rely on an inter-governmental agreement? Can the States and Territories trust the Commonwealth to stick to the agreement? The recent but ill-fated attempt to claw back some of the GST revenue from the States and Territories wasn't an encouraging sign.

Would it help then if the whole process was legislated at both levels of government? It would really force the levels of government to declare their hand on the meaning and long-term significance of "co-operation". Indeed nationwide legislation would give the model of co-operative federalism more legitimacy and send a strong message to the major players in the government and the bureaucracy.

Making this last point leads me to talk about commitment. To work reform requires the political class and public servants at both levels of government to understand and drive the process.

Such commitment will need to be demonstrated in three areas - information provision, attitudes to power, and the temptations of party politics.

If performance is to be properly assessed information will be needed that is relevant to the issue under examination and which is delivered in a timely and accurate way.

These are issues here which the COAG Reform Council has drawn to the attention of the political and bureaucratic leaders. Some information is not available, some comes too late to be effective as a spur to improvement and some is too qualified to be the basis for judgement.

One thing can be said. This issue is now on the table of Australian politics in a way that it wasn't before with agencies like the Australian Bureau of Statistics giving it serious attention. This is a good thing for our democracy.

What about the attitudes within both levels of government? Is the Commonwealth reverting to type and insisting on its view of what is needed for better outcomes rather than allowing for the diversity that is the public policy strength of federalism? Is financial power tempting the Commonwealth to seek the level of control that the new approach was designed to avoid?

In respect of both the Special Purpose Payments and more obviously the National Performance Payments, we are seeing signs of this. When the objective of the reform is national consistency in regulation this may be understandable but in respect of a vast array of programs in service delivery it doesn't make sense. Put simply - one size doesn't fit all!

For their part the States and Territories need to devote time, resources and energy to the process. They also need to protect and promote their interests so that it is a genuine partnership of equals. All too often they compromise in their desire to access the money.

These attitudinal issues are very important as the level of co-operation required to make the system work needs to be underpinned by trust and mutual respect. Should that evaporate the whole project would be in jeopardy.

Finally there is the issue of party politics. The National Competition Policy was agreed by both the major parties. This bipartisan approach gave enormous confidence to individual governments and strength to the process of reform.

The National Reform Agenda, on the other hand, has significant elements of disagreement, particularly but not only in the area of environmental sustainability.

Party politics, too, could always derail a process requiring co-operation between governments of a different political persuasion.

One could conclude from these reflections that whilst the intellectual basis and policy framework of the new agenda is sound and its delivery has been commenced there are still problems in the system that could disillusion participants and undermine if not destroy the initiative.

Perhaps the key will be the outcomes themselves. What, then, do we know about the state of the nation? Are we healthier? Are there higher standards of achievement in education and training? Are we better motivated to work? Is our society more socially inclusive? Have we reduced the

gap between indigenous and non-indigenous outcomes? Are we more environmentally sustainable? Are we better regulated and more competitive?

In respect of these questions the jury is still out. The COAG Reform Council has begun reporting but most of its initial reports in the main social and environmental areas are baseline studies. At this stage a significant level of comparative data across a number of years is not available.

However, we can say that the process itself is generating activity - money is going to new programs and better systems of information provision and reporting being put into place. Whether these will translate into real and lasting progress remains an unanswered question.

In respect of economic issues where the focus is on outputs (such as streamlined and more effective regulation) there has been progress but the COAG Reform Council has reported ten "at risk" objectives, out of the thirty-nine which were agreed. This includes important questions like directors' liability, the legal profession and occupational health and safety.

In considering these conclusions a number of questions come to mind.

Firstly, is the agenda too large? Only last year, for example the governments have added "Cities" to the agenda, an Expert Panel working with the COAG Reform Council on the issue.

Overload is always an issue in Commonwealth - State relations. Politicians and bureaucrats need time to do things properly and the temptation to cut corners is ever present.

There are two ways to respond to this - reduce the items on the agenda or increase the level of effort and resources devoted to the process.

The problem with reducing items is that we do live in an interconnected world. The sustainability principle cannot be ignored and lack of effort in one sphere may undermine good efforts in another. Priorities always have to be set but let's make sure they don't reflect a self-defeating narrowness of vision. What is needed is more clarity about the process, less generalisation and more specificity about what is on the agenda, rather than a smaller agenda.

Secondly, is the principle achievable in a system of vertical fiscal imbalance and increasing Commonwealth power? Already, for example, we have seen the Commonwealth moving further than was intended in the area of health. This is demonstrated by their requirement for the States and Territories to create Health and Hospital Networks. This is a specific output that may or may not be effective but which is being prescribed by the Commonwealth.

A good deal of bureaucratic control is also being developed in and around the increasingly significant National Partnership Payments, with many starting to look and feel just like the discredited Special Purpose Payments of earlier times.

Thirdly, are the policy timelines too long given that a good deal of politics these days is focussed on the next headline, the next opinion poll and the next election? Our political leaders have little choice but to concern themselves with these matters. After all, their position is largely dependent on their successful management of the vagaries of politics. However, it is still necessary to ask: Does politics narrowly conceived have to mean the derailing of long-term reform processes when difficulties emerge, as they inevitably will?

The National Reform Agenda is about long-term change. Patience and a level of consistency not seen in recent years will be required if outcomes such as those being sought are to be achieved.

This is another reason why bipartisanship is important.

In a sense Australia is at an important juncture. We have seen a lot of disagreement between the major parties at the national level but more agreement in the Parliament itself between the Labor Government, the Greens and the Independents. Consensus is possible but not of the type we saw with the National Competition Policy in the 1980's and 1990's. This shouldn't be all that surprising. After all it is a broader agenda than just economic reform.

Across the levels of government there is a good degree of apparent unity but it is under strain. The all-important trust needed for co-operation is under pressure as the Commonwealth remains tempted by the financial power it possesses. All too often we see a blurring of the line between co-operation and control.

Meanwhile the population remains restless and uncertain in the face of globalisation and a forever changing world. Politicians know we have to make hard decisions on behalf of the future but are being subject to the short-term pressures generated by populism.

Buffeted from without and under pressure from within the Council of Australian Governments (and the National Reform Agenda that it has agreed) is at risk. Strong political and policy leadership from the Prime Minister, the Premiers and the Chief Ministers is going to be needed to keep it on course.